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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

U.S. GEOTHERMAL, INC., an Idaho corporation, *Complainant* vs. IDAHO POWER COMPANY, an Idaho corporation, *Respondent.*	CASE NO. IPC-E-04-08
BOB LEWANDOWSI AND MARK SCHROEDER, *Complainants,* vs. IDAHO POWER COMPANY, an Idaho corporation, *Respondent.*	CASE NO. IPC-E-04-10 DIRECT TESTIMONY OF CLINT KALICH

FOR AVISTA CORPORATION

I. INTRODUCTION

Q. Please state your name, the name of your employer, and your business address.

A. My name is Clint Kalich. I am employed by Avista Corporation at 1411 East Mission Avenue, Spokane, Washington.

Q. In what capacity are you employed?

A. I am the Manager of Power Supply Planning & Analysis, in the Energy Resources Department of Avista Utilities.

Q. Please state your educational background and professional experience.

A. I graduated from Central Washington University in 1991 with a Bachelor of Science Degree in Business Economics. Shortly after graduation I accepted an analyst position with Economic and Engineering Services, Inc. (now EES Consulting, Inc.), a northwest management-consulting firm located in Bellevue, Washington. While employed by EES, I worked primarily for municipalities, public utility districts, and cooperatives in the area of electric utility management. My specific areas of focus were economic analyses around new resource development, rate case proceedings involving the Bonneville Power Administration, integrated (least-cost) resource planning, and demand-side management program development. In late 1995 I left Economic and Engineering Services, Inc. to join Tacoma Power in Tacoma, Washington. I provided key analytical and policy support in the areas of resource development, procurement, and optimization, hydroelectric operations and re-licensing, unbundled power supply rate-making, contract negotiations, and system operations. I helped develop, and ultimately managed, Tacoma Power's industrial market access program serving one-quarter of

the utility's retail load. In mid-2000 I joined Avista Utilities as a Senior Power Resource Analyst. Early in 2001 I was promoted to my current capacity. I assist the Company in the areas of resource analysis, dispatch modeling, resource procurement, integrated resource planning, and rate case proceedings.

Q. Why is Avista Corporation submitting testimony in this proceeding?

A. After reviewing the testimony submitted on behalf of complainants and Idaho Power Company, it is evident that the decisions in this case may have precedential effect with respect to other utilities that are subject to the Commission's jurisdiction. The purpose of my testimony is to present Avista's views on some of the issues raised in this case.

Q. What is the scope of your testimony in this proceeding?

A. My testimony will first discuss the ten-megawatt threshold for qualifying facility (QF) projects to be eligible for administratively determined (published) avoided cost rates. I will also briefly discuss the proposal by Idaho Power related to the possible impacts of deregulation that might occur in the future. Finally, I will explain that while the 90%/110% bandwidth may assist Idaho Power in scheduling its PURPA resources, the bandwidth will not protect Avista customers against the additional costs associated with the absence of capacity with wind and other non-firm resources. I recommend that a capacity discount be applied to these resources.

II. TEN MEGAWATT THRESHOLD

Q. Does the Company support a change to the current ten-megawatt threshold for QF projects that are eligible for published avoided cost rates?

A. No. Avista supports the ten-megawatt threshold adopted by the Commission that determines eligibility based on a generator nameplate rating or dependable capacity. Federal law,

pursuant to 18 C.F.R. 292.304(c), requires only that projects with a generating capacity of one-hundred kilowatts or less have access to published avoided cost rates. The Commission recently increased the eligibility level to ten megawatts. Expanding eligibility further for published avoided cost rates by, for example, using average annual energy as proposed by U.S. Geothermal, would increase the financial and operational risks to the Company and its customers.

The administratively determined avoided cost rates were determined based on a base-load surrogate resource that would deliver firm capacity and energy during both heavy-load and light-load hours. If eligibility for published avoided cost rates were to be based on average energy, (average megawatts or aMW) on a monthly or annual basis, it could lead to unintended consequences for the purchasing utility and its customers. For example, a qualifying cogeneration facility with more than ten megawatts of generating capacity could generate during off-peak and off-season hours to sell up to ten average megawatts at published rates, and then serve its own requirements or sell to other parties when the additional power that it generates is more valuable. This behavior could deprive the utility of the QF power when it is most valuable.

Q. What were the reasons for adoption of a size distinction in determining eligibility for published avoided cost rates?

A. In Order No. 26017, the Commission explained that tariff rates are used to simplify and minimize the costs associated with negotiating avoided cost rates for small qualifying facility developers. It stated, "we find that the costs of negotiation for projects larger than 1 megawatt should not be so significant as to render an otherwise financially viable project infeasible." Additionally, in the order, the Commission found that "reducing the threshold

correspondingly reduces the risks associated with published rates being set either too high or too low." Finally, projects with a capacity exceeding ten megawatts are not precluded from obtaining a utility contract; the Commission provides a methodology for developing avoided cost rates for these larger facilities.

The IPUC adopted a methodology in Order No. 26017, to establish avoided cost rates for qualifying facilities with a capacity in excess of ten megawatts. The order states that the:

> "... proposed methodology would operate as follows. First, the utility would determine through its least-cost plan model the cost of meeting load over the next twenty years. Whenever a proposed QF project were offered to the utility, the latter would insert the generation and capacity of the project into the model and determine what costs would be avoided over twenty years."

In the case of Avista, the power supply model (AURORA model) used to develop avoided cost rates for larger projects is the product of our Integrated Resource Planning process. A Technical Advisory Committee composed of customers and Commission Staffs from both Idaho and Washington review the assumptions contained in the power supply model.

Q. Does the Company use this approach when evaluating new utility generation?

A. Yes. The methodology is the basis for all ongoing utility power supply evaluations.

Q. Do you have any comments related to the Metered Energy Test proposed by Idaho Power?

A. Yes. The proposed Metered Energy Test would be consistent with and complementary to the existing threshold of a ten-megawatt generator nameplate rating or ten megawatts of dependable capacity. A ten-megawatt threshold limits the QF capacity output to

ten megawatt-hours (MWh) per hour. Therefore, application of a Metered Energy Test to limit payment of published avoided cost rates to only the first ten MWh per hour would be consistent with the existing ten-megawatt threshold previously adopted by this Commission.

In addition, any QF selling power at a published avoided cost rate should be required to sell all of its generation output to the purchasing utility. This requirement would insure that the utility and its customers are not providing a backstop, or minimum price, but a price that represents the value of all output from the qualifying facility.

Q. If a QF were to generate energy in excess of the ten-megawatt threshold, how would the Company propose to compensate the QF for the additional energy?

A. The Company believes that any energy generated above the lesser of 1) the ten-megawatt threshold, or 2) any stated contract hourly amount, should be purchased at a percentage of market-based rates reflecting the purchasing utility's short-term avoided cost. I recommend that the market-based rate be equal to eighty-five percent of the Mid-Columbia daily index, and be capped at the published avoided cost rate. Providing all generation in excess of the contract amount at a market-based price to the QF would provide compensation to the QF for all of its generation. However, it would avoid a price signal that might reward a qualifying facility for generating additional energy at times when it is of less value to the Company than the published avoided cost rate (e.g., spring runoff).

III. CONTRACT PROVISIONS FOR EVENT OF DEREGULATION

Q. Does the Company propose to include stranded cost provisions in it PURPA contracts at this time?

A. No. The Commission has jurisdiction over retail end-use customers, and determines avoided cost rates that are appropriate for QF facilities under PURPA. In the event of retail deregulation, the Company believes that the Commission has the authority to approve charges for end-use retail customers that would provide an opportunity for recovery of cost obligations resulting from PURPA contracts. If deregulation does occur at the retail level, it will be important that legislation address stranded cost issues, and/or the Commission retain all necessary authority to address recovery of any PURPA-related stranded costs.

IV. CAPACITY ISSUE

Q. Does the Company have any comments with regard to capacity and the 90%/110% bandwidth issues raised in this case?

A. Yes. Avista is concerned that the 90%/110% bandwidth proposed by Idaho Power will not address our concern that all QF developers deliver both capacity and energy in exchange for the published avoided cost rate. The 90%/110% bandwidth only requires that resources meet a monthly energy quantity. Capacity, on the other hand, is an instantaneous or near-instantaneous product. If a resource such as wind cannot be expected with a high degree of confidence to be available to the system at times of peak need, the 90%/110% bandwidth would not eliminate the need for backup capacity. Wind and other non-firm resources should not be eligible to receive the full, published avoided cost rate because of the absence of firm capacity from these resources. A capacity discount is a good solution, as I will explain below.

Q. What capacity costs is the Company suggesting need to be addressed, and what resource types would be subject to the costs?

A. The Company is concerned about the costs associated with two services that historically have been referred to as capacity costs. The first is planning margin. The Company must acquire adequate capacity to serve its customer loads in the event of adverse weather and/or hydroelectric conditions. To meet this requirement, the Company carries capacity reserves equal to approximately fifteen percent of its system peak demand. Firm resources generally provide capacity that may be used to meet our planning margin requirements. Non-firm resources like wind, on the other hand, do not provide capacity and require the Company to reserve additional system capacity to meet these obligations.

The second capacity cost is generation following, sometimes referred to as integration costs, for wind and other generators that are either not able to, or choose not to, accurately forecast their production levels hour to hour. For these resources the utility system must be re-optimized, at additional cost, to provide enough flexibility to respond to intra-hour and hour-to-hour generation changes.

Q. How would the Company go about quantifying a capacity discount applicable to wind and other non-firm QF resources?

A. The Company is not proposing that the Commission approve a specific capacity discount applicable to published avoided cost rates in this proceeding. One way to quantify such a discount, however, is to consider what the Bonneville Power Administration ("BPA") charges for the capacity products necessary to firm and shape wind resources. The BPA service requires a combination of products that equals approximately sixteen dollars per megawatt-hour. This

product contains the basic additional expenses that Avista would incur to deliver wind energy to the BPA system for firming and shaping, and then have it redelivered back to our system as firm energy including capacity. Exhibit 1 shows how the sixteen-dollar charge is developed.

If and when the Company is presented with a non-firm QF resource like wind, we believe that the capacity discount issue should be addressed at that time.

Q. Does this conclude your pre-filed direct testimony?

A. Yes it does.

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BOB LEWANDOWSI AND MARK SCHROEDER, *Complainants,* vs. IDAHO POWER COMPANY, an Idaho corporation, *Respondent.*	CASE NO. IPC-E-04-10 EXHIBIT NO. 1 CLINT KALICH

FOR AVISTA CORPORATION

BPA Wind Firming and Shaping Service

100 MW Hypothetical Project @ 33% Capacity Factor (289,080 MWh)

Line No.	Component	Quantity (MW)	Quantity (MWh)	Price ($/MW-Month)	Price ($/MWh)	Total ($000s)
1	Transmission In	100		1,210	5.023	1,452
2	Losses In [1]		289,080		1.045	302
3	Integration Charge		289,080		6.00	1,734
4	Transmission Out	50		1,210	2.511	726
5	Losses Out [1]		289,080		1.045	302
6	Total				15.62	4,517

[1] 1.9% of delivered energy @ $55/MWh

Line 1 – transmission necessary to move QF power to the BPA system
Line 2 – losses of 1.9% are applied to account for losses across BPA system
Line 3 – charge for shaping and firming service
Line 4 – transmission necessary to redeliver QF power back to Avista system
Line 5 – losses of 1.9% are applied to account for losses across BPA system
Line 6 – total of all costs

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Exhibit No. 1. Page 1 of 1
C. Kalich
Avista Corporation